



Procurement Thursdays

Basics & Beyond Supplier Management



The environment today



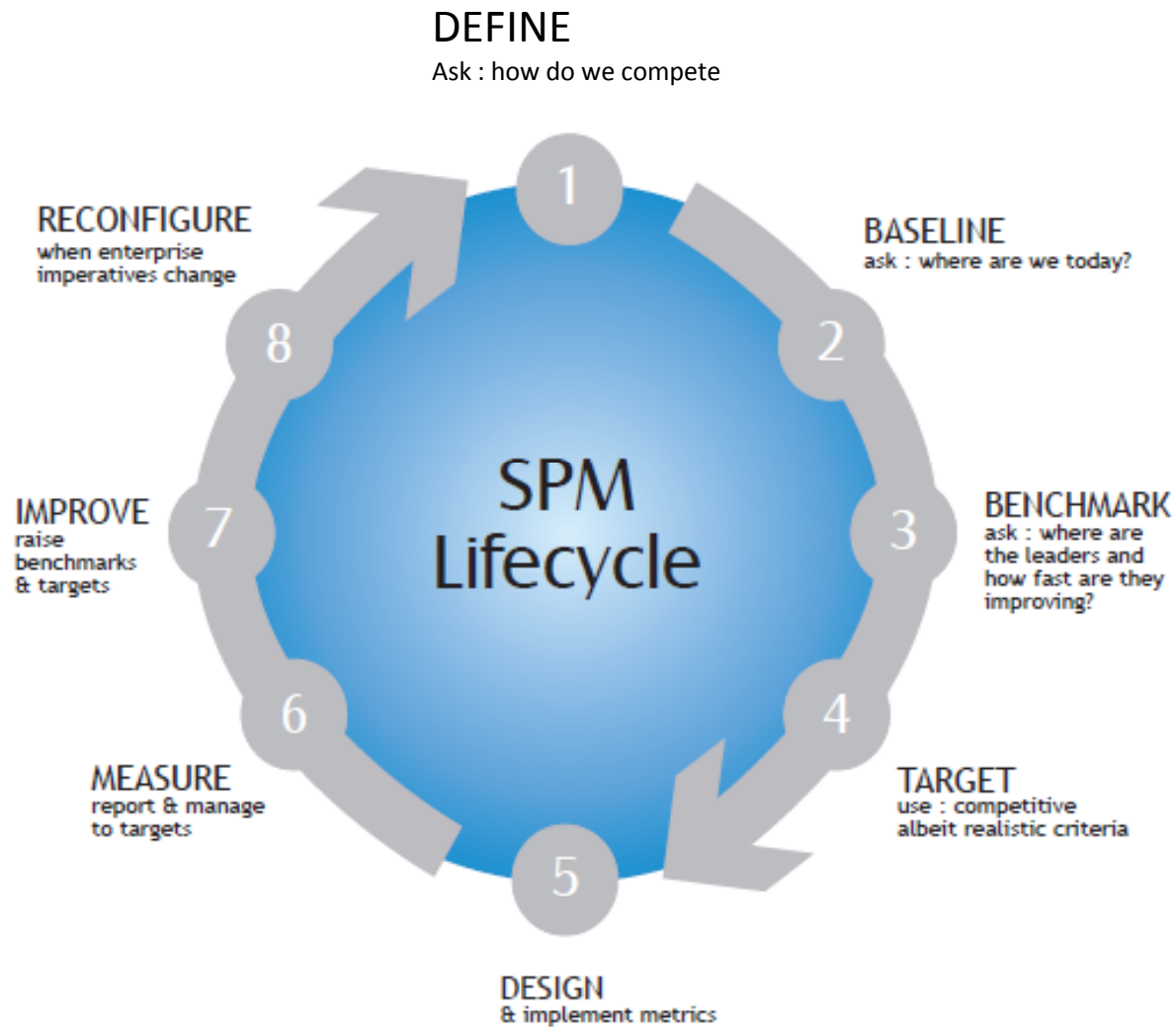
The need for Supplier Performance Management

- ❑ Supply chain disruptions

The crisis that began with the earthquake of March 11 has created shortages at the operations of more than 25 companies with some organizations lacking as many as 300 different electronic components. For each week that supply is not available, it takes approximately four to six weeks to recover overall supply-demand balance
Report from PRTM Consultants

- ❑ Reduce dependence on single supplier
- ❑ Forecast and manage supplier risk
- ❑ Build collaborative relations with suppliers
- ❑ Improves accuracy of supplier information
- ❑ Fosters culture of innovation and transparency

The SPM Life Cycle



Define competitive framework

- ❑ Look at how your organization competes in the market
- ❑ Identify what tactics your organization uses to go to market
- ❑ Align those supplier performance factors with the success factors for your organization

Baseline and Benchmark

- ❑ Establish a performance baseline
 - Where do we stand today in the market
- ❑ Now benchmark with the leaders in the industry
- ❑ Isolated SPM metrics may lead to impossible KRAs
 - E.g. Six sigma requirements for suppliers of cheap plastics

If benchmarks are available

- ❑ Investing in research and market intelligence operations,
- ❑ Capture and structure latent competitive knowledge found within the enterprise
- ❑ Work with third-party information and service providers.

If benchmarks are unavailable

Give suppliers creative incentives to offer and deliver better performance vis-à-vis any competing customers they may serve,

Look at different sets of benchmarks— for example, what is best-in-class?

Target and Define

What Targets should be

- ❑ Inspiring creativity
- ❑ Innovation

What Targets shouldn't be

- ❑ Unattainable
- ❑ Wasteful
- ❑ Frustrating

Defining Supplier Metrics

- ❑ Creating ideal metrics that are
 - (a) comprehensive enough to drive to desired results *without creating unintended behaviors and*
 - (b) *simple enough to be easily and cost effectively executed and interpreted as a basis for action and decision making,*
- ❑ Finding easy, cost effective ways to acquire, structure, store, and validate the data inputs required by the ideal metrics, and
- ❑ Creating meaningful connections between supplier, procurement/sourcing internal, and enterprise success metrics.

Refine and Improve

- ❑ Stagnant targets lead to complacency and lead to performance deterioration
- ❑ Benchmark with industry growth/decline parameters
- ❑ Communicate clearly with suppliers about the changes in metrics according to industry fluctuations

Reconfigure and Re-launch

Factors that might warrant a reconfiguration of SPM metrics

- ❑ Advent of new competitors
- ❑ Entry into newer markets
- ❑ Technology innovation (in both primary and supplier markets)
- ❑ Economic boom/bust and inflation/deflation cycles.
- ❑ SPM metrics need to be flexible and agile

Poll Question 1

Q. What is your most important supplier management initiative for 2011?

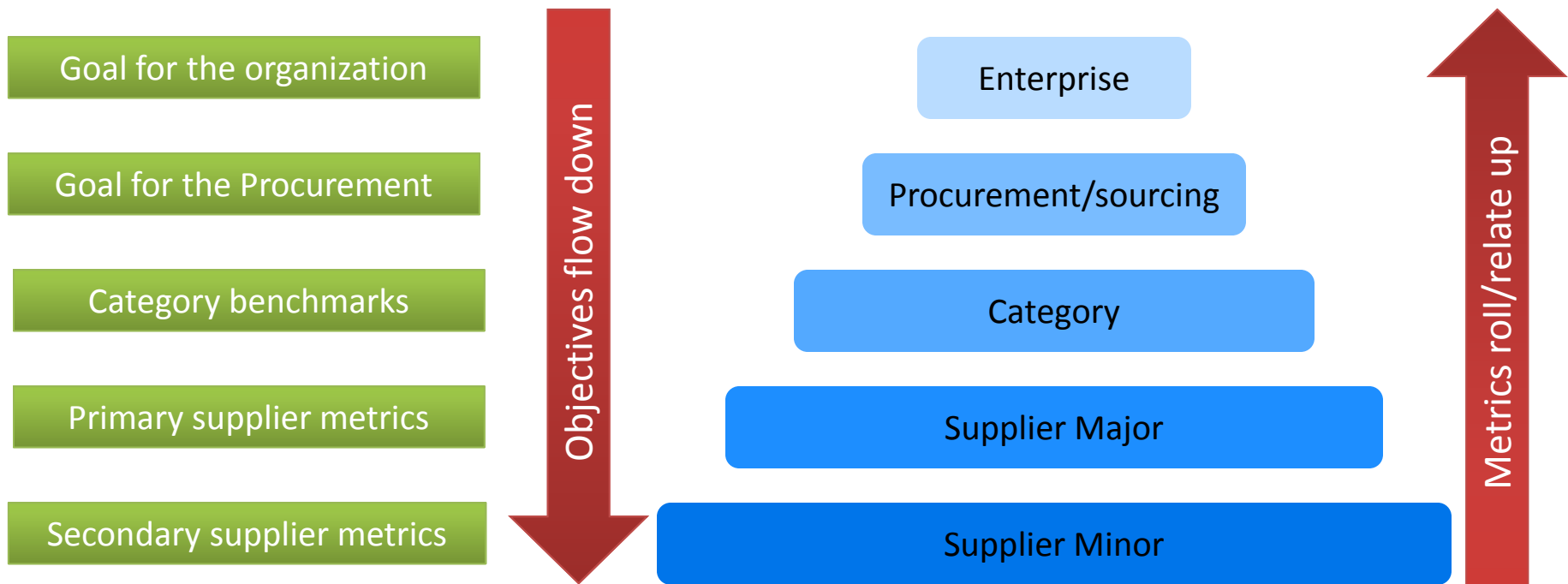
- Supplier enablement (e.g., on-boarding)
- Supplier auditing
- Supplier performance management
- Supplier risk management
- Supplier compliance and vendor master data

Defining SPM metrics-Too many questions

- ❑ Who should be involved in the SPM process?
- ❑ How many suppliers should we measure? And which ones?
- ❑ How frequently should we measure?
- ❑ How can we cope with competing objectives and tradeoffs within our enterprise?
- ❑ How can we accommodate fundamental differences among spend categories, direct versus indirect, products versus services, and so forth?
- ❑ How will we obtain consensus on what SPM metrics and improvement targets should be?
- ❑ How can we balance objective/subjective or quantitative/qualitative data inputs?
- ❑ How can we consistently obtain accurate inputs?
- ❑ How can we measure the return on investment in SPM (or at least ensure our efforts remain cost effective)?
- ❑ And, how can we account for supplier complexity (for example, parent-child relationships), different supplier sizes, and complexity in our supplier relationships (for example, the fact that some suppliers may also be our customers)?

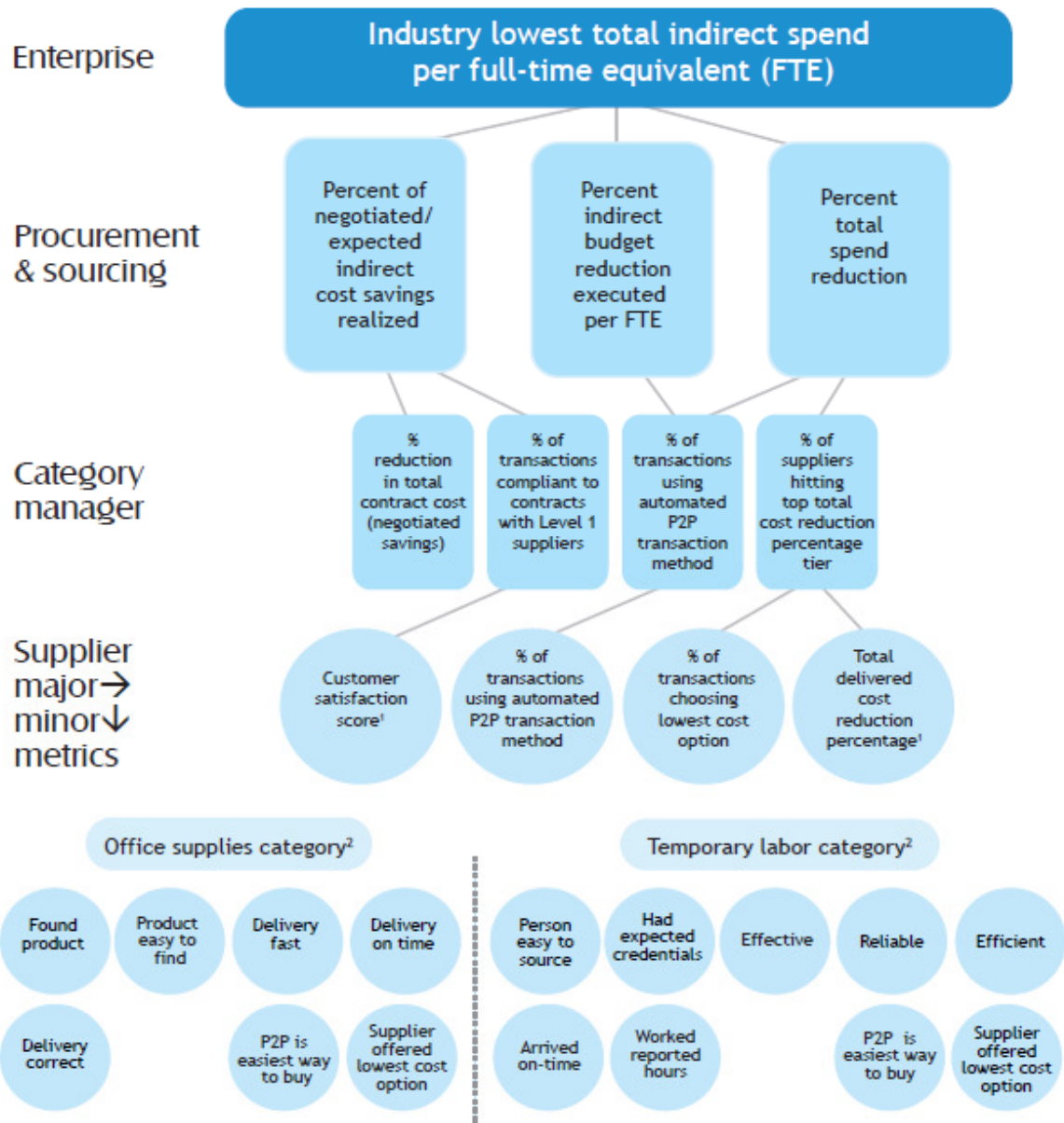
Creating Supplier Metrics

SPM hierarchy of objective/metrics



Victor R. Basili, Gianluigi Caldiera, H. Dieter Rombach, The Goal Question Metric Approach

An indirect goods & services example



Major metrics—those to be used as a basis for awarding business or taking it away—should be accurate, objective, and capable of being validated.

Supplier Minor metrics can be to detect risk, isolate root causes of performance problems, identify process improvement opportunities, support supplier performance reviews, and so forth.

Evaluating an SPM tool

- ❑ Ease of Use- Simplicity pays!
- ❑ Flexibility
- ❑ Focus on Fundamentals
- ❑ Integration
- ❑ SAAS vs BTF

Recommendations

- ❑ Identify the right method applicable to your organization and imbibe all stakeholder input
- ❑ Start small and then grow into larger processes
- ❑ Establish open dialogue with supplier while devising metrics and monitoring performance
- ❑ Adopt technology
- ❑ Use Supplier performance metrics as a measure of procurement efficiency

Poll Question 2

Q. What is the biggest advantage of an IT based Supplier Performance Management Solution?

- Reduction of cycle time through process automation
- Collaborative platform for all stake holders
- Enhanced transparency in SPM process
- In-depth performance analysis and generation of actionable information

Thank You for attending this Web Seminar!

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